

**Top Secret**

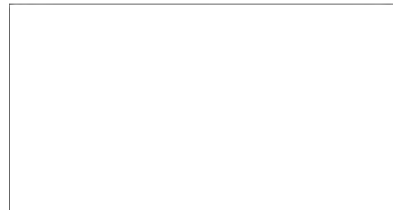
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NATIONAL INTELLIGENCE DAILY CABLE

Saturday November 13, 1976

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National Intelligence Daily Cable for Saturday November 13, 1976.

The NID Cable is for the purpose of informing senior US officials.

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## EGYPT-USSR-US: Relations

[ ] Egypt is taking a hopeful but cautious approach to recent contacts with the USSR. The Egyptians seem anxious that the new US administration take note of these contacts but not interpret them as indicating a radical swing back to close ties with the Soviets. 25X1

[ ] The Egyptians are seeking a resumption of arms deliveries, or at least a regular flow of spare parts, from the USSR, and they also want the US to know that they are. 25X1

[ ] At the same time, Egyptian leaders are anxious to avoid overplaying their hand and thus giving the US the impression that they have written off the US as a useful ally under president-elect Carter's administration. Fahmi, for instance, has attempted in conversations with Ambassador Eilts to downplay the significance of Egyptian-Soviet contacts. 25X1

[ ] The Egyptians actually do want more amicable ties with the USSR, but with minimal political strings. President Sadat told the new Egyptian cabinet on Wednesday that he welcomes improved relations with the Soviets, but that "he who wants to deal with us must deal with us as we are and not as he wants us to be." [ ] 25X1

## ITALY: Labor Costs Problem

[ ] Italian Prime Minister Andreotti survived a parliamentary confidence vote on his latest austerity proposals yesterday, mainly because he declined to make a specific proposal on the controversial problem of how to limit soaring labor costs. Andreotti instead called for industry and for organized labor--in which the Communist Party plays a leading role--to come up with a negotiated solution within a month. 25X1

[ ] The measures that were approved, such as a requirement that companies and the self-employed prepay a substantial portion of their taxes each year, are designed to raise to about \$6 billion the amount that the government plans to take in through the austerity program. Earlier measures consisted mainly of price hikes on a wide variety of public services and government-controlled commodities. 25X1

[redacted] These steps, aimed at curbing the government's deficit, will not by themselves solve Italy's economic problems. A way must also be found to diminish the inflationary impact of the wage indexation system, under which the wages of most workers rise automatically in response to any increase registered by the cost-of-living index. Most observers, including Italy's potential foreign creditors such as the EC, maintain that modification of this system is essential to the success of the stabilization effort.

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[redacted] Andreotti's reluctance to submit to Parliament his wage proposals--one of which calls for freezing or reducing automatic increases for the upper 20 percent of wage earners--stems from the stiff resistance from the trade unions. Many labor leaders were at first inclined toward some flexibility on the wage escalator but, in response to growing opposition from the workers, union leaders now reject any change in the system. Thus, had Andreotti insisted that Parliament consider the wage issue this week, he would have forced the Communists to choose between offending their rank and file in the labor movement or bringing down the government, which the Communists do not want to do in present circumstances.

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[redacted] By calling on industry and labor to negotiate a solution to the wage issue, Andreotti has placed on the Communists much of the burden for working out a policy in this key area. As the most influential party in the labor movement, the Communists will play a major role in these negotiations.

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[redacted] While labor leaders appear united in their opposition to changes in the wage indexation system itself, they are divided over how far to go in limiting wage costs through other means. Communist union leaders, along with moderate elements in the Christian Democratic and other unions, are advocating a cooperative posture, while another group, led chiefly by Socialist union officials, is taking a tough line.

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[redacted] This situation holds both opportunities and risks for the Communists. If, for example, the party can deliver labor cooperation in reducing wage costs, it will be able to claim substantial credit for any success the austerity program achieves. On the other hand, their advocacy of significant wage restraints

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[redacted]

would probably subject the Communists to more internal dissent-- a problem that has become increasingly bothersome for the party as its cooperation with the government has grown. In that case, the Communist leaders would be looking for opportunities to obtain further concessions from the government to blunt criticism from their followers. [redacted]

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#### SPAIN: Opposition, Reform Program

[redacted] The Spanish government appears increasingly confident that its constitutional reforms will be approved by parliament without major revision.

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[redacted] There are signs that the government has been busy behind the scenes applying pressure to the 300-odd fence-sitters in parliament. //Deputy Prime Minister Osorio recently confided to a US official that the legislation has been individually discussed and "negotiated" with almost every member of parliament.//

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[redacted] The parliamentary subcommittee, which has been considering the bill, rejected ultra-rightist amendments and, in its report yesterday, made only a few minor changes to the government's bill. The full legislature will begin debating the bill on Tuesday, and president of parliament Fernandez Miranda said the debate might continue past November 20, the first anniversary of Generalissimo Franco's death. Rightists are planning massive demonstrations for November 20, but there have been reports that Fernandez Miranda might call for an early vote to avoid the possibility that police action against the right might influence parliament's decision.

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[redacted] The opposition continues to be divided over how to respond to the reform program. Some leftists are threatening to boycott the government's next step--the referendum on the reforms approved by parliament--unless various conditions are met. The demands include legalization of the Communist Party.

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[redacted] The more moderate leftists apparently will not support a campaign for abstention from the referendum unless the rightist parliament significantly waters down the reforms. Al-

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[redacted]

though abstention by other leftist groups probably would not jeopardize approval of the referendum measures, it could undermine the government's effort to obtain a large popular vote for its reform program.

[redacted] The threat to abstain was first issued late last week by the recently formed Platform of Democratic Organizations, a loose alliance of six leftist coalitions that includes Socialists but is apparently dominated by Communists and far-left splinter groups.

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[redacted] Divisions within the opposition also apparently hindered the effectiveness of the "Day of Stoppages" held yesterday by the illegal labor unions. Although Workers Commission leader Camacho said that he expected 2 million workers to respond to the call, less than half a million were idled--some for only a brief time.

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[redacted]

#### LEBANON: Situation Report

[redacted] Syrian peacekeeping units have delayed their entry into Beirut for at least a day.

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[redacted] The Syrians may be waiting for contingents from Saudi Arabia and the United Arab Emirates, apparently due to arrive shortly; their presence would give the operation a more truly pan-Arab character, and could reduce the danger of incidents. The delay may also have been ordered at the insistence of the Christians, who evidently are pressing the Syrians to move into Sidon and Tripoli before they take up their positions along Beirut's confrontation line.

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[redacted] Damascus radio has announced that the locations in Beirut where security forces will be stationed include the commercial area, the port road, the hotel area, and the suburbs of Shiyah and Ayn Rummanah. They probably will take over public installations, including radio and television stations.

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[redacted] Security force commander al-Hajj met with Palestinian military leaders on Thursday and asked them to collect all their heavy weapons in order to minimize incidents with the advancing security troops; he apparently did not ask them to turn the weapons in. The fedayeen have been caching their heavy weapons in underground depots at the refugee camps south of Beirut in an effort to avoid confiscation.

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[redacted] Fierce fighting and shelling broke out at the museum crossing point between the two sides of Beirut late Thursday afternoon and early yesterday. Indiscriminate shelling continued yesterday on both sides of the city, as well as its southern suburbs. In the south, the Palestinians are saying that Israeli artillery and machine gun fire have supported Christian attacks near Bint Jubayl for the past three days. Heavy shelling also was reported in the north around Majdalaya.

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[redacted]

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#### BANGLADESH: Regime Marks Anniversary

[redacted] The first anniversary of the coup that brought the present martial law administration to power in Bangladesh passed quietly this week with the government apparently still in firm control. The regime showed its increasing self-confidence by releasing some 2,500 political prisoners.

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[redacted] The present stability, which is largely due to good harvests and an improved economic situation, could deteriorate when full-scale political activity begins for the national election that figurehead President Sayem has promised will be held by February. The government has already sanctioned 17 parties, representing nearly every major political and religious group, to participate in the election. The party of assassinated former president Mujib was finally sanctioned last week.

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[redacted]

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[redacted] Political violence among these parties was common before last November and may now be re-emerging. Last week, police were called in to quell student unrest at Dacca University.

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[redacted] //Some politicians and many senior military officers--possibly including Bangladesh's de facto leader, General Zia ur-Rahman--would prefer to defer the election. [redacted]

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[redacted] There probably would be considerable popular support for such a move. Some political groups, however, would undoubtedly oppose a postponement of the national election, and they might gain the backing of politically ambitious military officers. Zia probably would attempt to neutralize suspected enemies within the military before deferring the election.//

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[redacted] The Zia regime's main foreign policy concern continues to be its troubled relations with India. Border incursions by Indian-supported groups and the dispute over India's diversion of water from the Ganges River at the Farakka dam site 20 kilometers (11 miles) up river from the border are still the main irritants between the two countries.

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[redacted] Attacks on India in the Dacca press reappeared this week after a temporary lull. The resumption is probably designed to muster public opinion prior to the discussion of the Farakka issue at the UN on Monday. [redacted]

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#### GREECE-TURKEY-CYPRUS: Reaction to US Election

[redacted] //Greeks and Turks as well as their kinsmen in Cyprus look upon the recent US election as a new and important factor in their disputes over Cyprus and the Aegean.//

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[ ] Greeks and Greek Cypriots have been buoyed by the election results. Nearly all the media, except for the Communist newspapers in Greece and Cyprus, have suggested that the new administration in Washington will be more sympathetic to the Greek side in both the Cyprus and the Aegean disputes. Greek and Cypriot officials have been more guarded, but they also seem to believe that there will be a noticeable change in US policy.

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[ ] The Turkish and Turkish Cypriot press, meanwhile, is asserting that the US would not risk alienating Turkey, an important cornerstone of the Western defense system. Interspersed with this line, however, have been expressions of concern that the new administration might in some way favor the Greeks. //This concern appears to be shared by Turkish and Turkish Cypriot officials.//

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[ ] //These attitudes are likely to influence the current negotiations on the Aegean and any talks on Cyprus in the coming months. The apparent Greek willingness earlier this fall to consider making some concessions in the Aegean was due partly to heavy Turkish pressure, and partly to what the Greeks saw as the lukewarm international response to their initiatives in international forums. Although there has been some narrowing of differences in the talks on Aegean issues under way in Paris and Bern, the Greeks will probably refrain from making any major concessions now in the hope that the new US administration will be more sympathetic to their position.//

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[ ] //The Greek Cypriot leadership also appears to expect more US support in the future. Whereas Cypriot Foreign Ministry officials had earlier indicated they would welcome a US or a joint US - European Community effort to get the stalled intercommunal negotiations under way, President Makarios has now declared publicly that any such initiatives at this time would be inappropriate.//

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[ ] //For its part, the weak coalition government in Turkey will find it hard to modify its tough negotiating stance on the Aegean or Cyprus, especially in light of the approaching campaign for the October 1977 parliamentary election. The Turks, like Makarios, have reacted coolly to the prospect of any US or EC initiative on Cyprus.//

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[redacted] //In the coming months, however, the Turks might mix the prospects of concessions on Cyprus with hints of a closer congressional passage of the US-Turkish Defense Cooperation Agreement. Turkish leaders are undoubtedly aware of the risks in overplaying either of these alternatives.//

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[redacted] //Significant concessions on Cyprus could create domestic political setbacks for Turkey's current leaders, and despite Foreign Minister Caglayangil's announcement yesterday that the USSR has presented a declaration of goodwill and friendship for Turkey's signature, no member of the government favors a drastic alteration of Turkey's foreign policy orientation.// [redacted]

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#### CHINA: Shanghai Radicals

[redacted] One of Hua Kuo-feng's earliest victories as China's new leader was to bring Shanghai--leftist stronghold and home of the "gang of four"--under his control quickly and without bloodshed. The general outlines of how Hua fashioned this victory can be pieced together from a variety of sources, including wall posters, clandestine reporting, and official radio broadcasts.

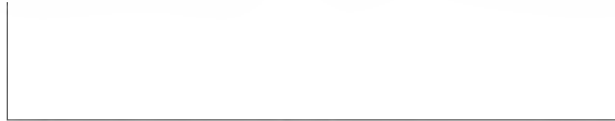
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[redacted] On October 7, the day after the arrest of the four Shanghai-based leftist Politburo members, Hua hurriedly assembled his Politburo for an informal meeting to discuss the immediate action to be taken in leftist power bases--Liaoning Province and the city of Shanghai. Hua is said to have argued that Shanghai was "in a quagmire" and must be handled "without delay."

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[redacted] Hua's plan involved the dispatch of a "central work team" to Shanghai to secure the loyalty of Shanghai garrison troops and pre-empt any leftist attempt to use Shanghai's urban militia. In addition, Shanghai's four senior party secretaries were to be summoned to Peking. The moderates in Shanghai, Chou Chun-lin, the city's garrison commander and enemy of Shanghai's leftists, and Ma Tien-shui, purged during the Cultural Revolution, were to go first, followed by the leftists, Hsu Ching-hsien and Wang Hsiu-chen. This would give the moderates a chance to side with Hua without leftist pressure.

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[ ] The moderates went to Peking and were briefed by Hua on October 7. In Shanghai, the two leftists, unaware of the arrest of the "gang of four," were nevertheless suspicious enough to begin drawing up contingency plans for arming the urban militia.

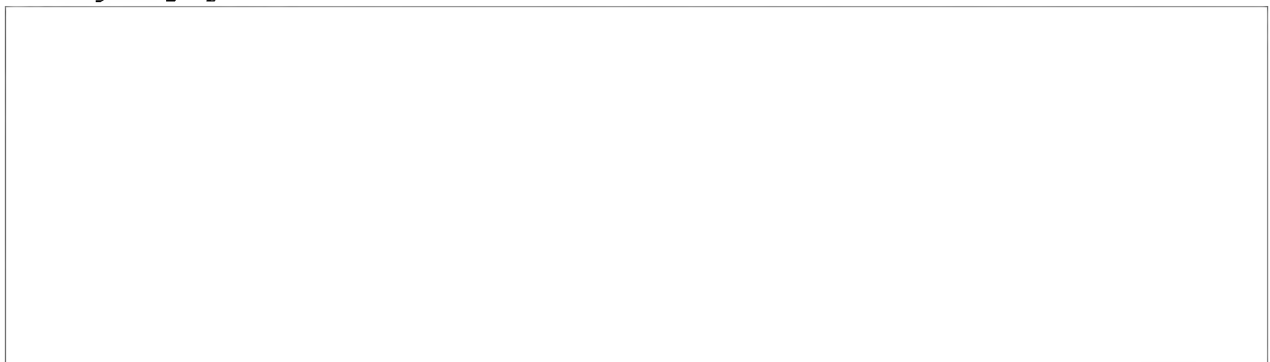
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[ ] Hua's "central work team," headed by Su Chen-hua, an alternate Politburo member and deputy commander of the navy, and Ni Chih-fu, an alternate Politburo member and Peking party secretary, apparently arrived secretly in Shanghai as early as October 7 or 8. They probably established a headquarters in the Shanghai garrison and began to neutralize the urban militia through strategic positioning of regular troops and persuasion of militia leaders.

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[ ] Once Hua learned from Su and Ni in Shanghai that there was no danger of an armed uprising in the city he called the two leftists to Peking on October 10. The two moderates, meanwhile, had told Hua of the leftists' plan to mobilize the militia.// The leftists, however, never mentioned their contingency plans.

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[ ] //By October 14, Hsu and Wang were being denounced in wall posters put up throughout Shanghai on a scale not seen since the Cultural Revolution. In addition, the largest mass rallies in the city since that period began on the same day. On October 16, the Shanghai garrison, the city's 16 institutions of higher learning, and two daily newspapers publicly announced their support for Hua.//

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[redacted] Ma and Chou led a mammoth rally on October 24; Hsu and Wang, who had not appeared in public since October 16, did not participate. Finally, on October 27, the two moderates were joined by the leaders of the central work team at another mammoth rally, which served to put the finishing touches on the legitimacy of Shanghai's new leadership.

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[redacted] Some three weeks after the arrest of the Shanghai-based "gang of four," the Central Committee was able to announce that three of them--Chang Chun-chiao, Yao Wen-yuan, and Wang Hung-wen--had been dismissed from all of their posts in Shanghai. They were replaced by members of the central work team who had so successfully neutralized the contingency plans of the radicals.

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[redacted] Su was named Shanghai party and government boss, while Ni was appointed second in command of Shanghai's party and government. Peng Chung, alternate Central Committee member and Kiangsu Province party chief, took over as the city's third-ranking party and government leader.

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[redacted] This new leadership will definitely chart a moderate course. While it is not known whether Su and Ni will retain their posts at the center, or whether Peng Chung will keep his Kiangsu party boss job, it is safe to say that these three will share their leadership roles with the two local veterans, Ma and Chou, who played such a crucial role in filling in the "Shanghai quagmire."

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